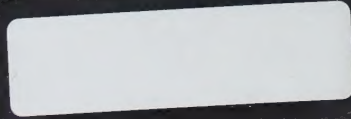


AR20

*for*





all



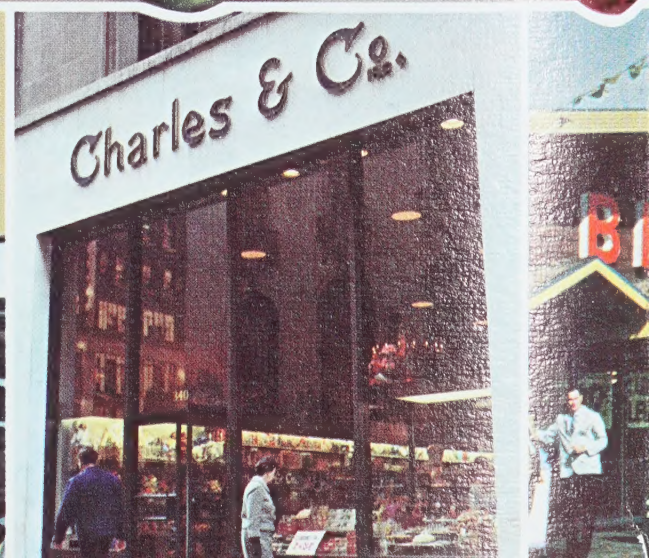
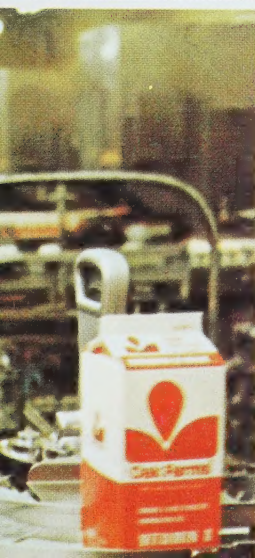














## FINANCIAL HIGHLIGHTS

	Year ended December 31	
For The Year	1970	1969
Total Revenues . . . . .	\$951,901,487	\$842,244,372
Earnings Before Extraordinary Item . . . . .	\$ 14,429,653	\$ 12,101,965
Extraordinary Item . . . . .	—	380,914
Net Earnings . . . . .	\$ 14,429,653	\$ 12,482,879
Per Share*		
Earnings Before Extraordinary Item . . . . .	1.78	1.52
Extraordinary Item . . . . .	—	.05
Net Earnings . . . . .	1.78	1.57
Cash Dividends . . . . .	\$ 1,887,610	\$ 1,795,594
At Year-End		
Net Working Capital . . . . .	\$ 80,042,680	\$ 76,707,214
Current Ratio . . . . .	2.13 to 1	2.17 to 1
Long-Term Debt . . . . .	\$ 94,895,596	\$ 96,668,215
Stockholders' Equity . . . . .	\$109,039,463	\$ 95,766,270
Average Shares Outstanding . . . . .	8,087,553	7,959,019
Book Value Per Share* . . . . .	13.48	12.03
Number of Stockholders . . . . .	8,249	8,079
Number of Employees . . . . .	18,900	19,500
Annual Dividend Rate Per Share . . . . .	.24	.24

\*Based on average number of shares outstanding during the period.



# THE SOUTHLAND CORPORATION ANNUAL REPORT 1970

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## Corporate Data

### Stock Transfer Agents:

First National Bank in Dallas, Dallas, Texas  
The Chase Manhattan Bank, N. A.  
New York City

### Stock Registrars:

Texas Bank & Trust Company of Dallas  
Dallas, Texas  
First National City Bank, New York City

### Trustee, Registrar and Paying Agent

#### 5½% Convertible Subordinated Debentures:

The Chase Manhattan Bank, N. A.  
New York City

### Securities Traded — OTC

#### Common Stock —

NASDAQ Symbol — SOLD

5½% Conv. Sub. Debs. —

NASDAQ Symbol — SOLDG

### Annual Meeting:

11 a.m., April 28, 1971

Town Hall Auditorium, Concourse Level  
Texas Bank & Trust Company of Dallas

### Mailing Address:

P.O. Box 719, Dallas, Texas 75221

### Telephone:

214/824-8121









## TO OUR STOCKHOLDERS

In a year of general economic uncertainty, during which many business firms experienced slowdowns and setbacks, we are pleased to report that your company achieved the sales and profit objectives set at the beginning of 1970 and recorded an all-time high in revenues and earnings.

Total revenues for the year were \$951,901,487, an increase of 13% over last year's \$842,244,372.

Net earnings from operations were \$14,429,653, up 19.2% over 1969 operating earnings of \$12,101,965. Total net earnings for 1969 were \$12,482,879, which included a \$380,914 extraordinary item of income realized from the sale of a tract of land in California.

Per share earnings, computed on the basis of 8,087,553 average shares outstanding, increased 13.4% to \$1.78 per share for 1970. This compares with \$1.57 per share based on an average of 7,959,019 shares outstanding in 1969, as adjusted for the 3% stock dividend paid in 1970, and includes five cents per share from the extraordinary item of income.

Cash dividends paid in 1970 amounted to \$1,887,610, compared with \$1,795,594 in 1969. In addition a 3% stock dividend of 231,187 shares was paid in November, 1970. At year-end, there were 8,249 stockholders and 1,108 debenture holders.

During the year, your company invested \$25.8 million in property, plant and equipment compared to \$51.3 million in 1969. This reduction in capital expenditures was largely the result of a decision to delay the building of a number of planned new stores in areas where construction of single and multiple family housing developments was slowed down due to high borrowing costs and "tight money." In response to recent indications of an improved national economy and the easing of interest rates, our stores construction program will be accelerated in 1971.

At December 31, Southland's operations included 4,010 retail stores, 11 dairy divisions and candy, chemical and ice businesses in 37 states, the District of Columbia and three provinces of Canada.

Southland continued to expand in Canada where the first seven 7-Eleven stores were opened in 1969. At year-end, there were 22 stores open in the metropolitan areas of Vancouver, Calgary, Edmonton and Winnipeg.

In November, 1970, the company acquired Horten Dairy Company and its nine Dairy Miss stores in Cleveland, marking Southland's initial entry into Ohio's largest and the nation's 12th ranking metropolitan market. Also acquired in November was Northern Illinois Open Pantry Food Marts, Inc., the franchisor of 60 convenience food stores in the Chicago area.

1. **John P. Thompson**, left, chairman of the board and chief executive officer; and **H. E. Hartfelder**, president.
2. **Joseph S. Hardin**, vice president of planning and development; **Clifford W. Wheeler**, vice president of new areas; and **Walton Grayson, III**, vice president and general counsel.
3. **R. G. Smith**, controller; **J. B. Langford**, secretary; and **W. K. Ruppenkamp**, treasurer.







Late in 1970, Southland, in cooperation with one of Mexico's largest corporations, formulated plans for the introduction of convenience food stores in that country. The first of these stores, to be known as Super 7, is now under construction in Monterrey with opening scheduled for April, 1971.

Southland's first regional distribution center, construction of which began in October in Orlando, Florida, is scheduled to be finished by mid-1971. On completion, this modern and highly-automated warehouse facility will begin to supply the 7-Eleven stores in Florida with merchandise deliveries designed to meet the unique inventory requirements of convenience food stores. We believe this system of computerized inventory control and distribution will make a significant contribution to overall store operations.

Employee training and the development of management and supervisory personnel of our stores and dairies are continuing and highly important company programs. Late in 1970, the Training Center in Dallas inaugurated the Profit Managers course, a concentrated study of job delegation, performance follow-up, time management, problem-solving and decision-making. The course also covers evaluation of store sites, equipment purchasing, accounting, budgeting, advertising, personnel administration and office management.

Southland's rapid growth during the past decade has created the need for additional space to centralize and accommodate our general office departments and personnel. Plans are being

formulated to develop an office complex which will utilize the present general office, a recently purchased adjacent office building and a to-be-constructed 11-story office tower. Remodeling of the adjacent office building is now underway, and completion of the complex is scheduled for early 1973.


The experience and capability of our management organization and of the almost 19,000 members of our employee family who daily meet and deal with our most important single asset, our customers, made it possible for your company to achieve new sales and earnings records, to enter new markets and to expand its overall operations.

To our employees and to you, our stockholders, we extend our sincere thanks and appreciation.

Very truly yours,



John P. Thompson, Chairman



H. E. Hartfelder, President

1. Architect's rendering of Southland's planned general office complex, scheduled for completion in Dallas, Texas, in early 1973.
2. The dairy divisions' new plant at Sulphur Springs, Texas, and some of the specialty food products processed at the facility.
3. 7-Eleven's newly designed self-service gasoline dispenser.
4. Architect's rendering of Southland's regional distribution center now under construction in Orlando, Florida.
5. One of the nine Cleveland Dairy Miss stores purchased by Southland in 1970.
6. Architect's rendering of the first "Super 7" convenience food store which will open in Monterrey, Mexico, in April, 1971.
7. An Open Pantry Food Mart, one of 60 such stores in the Chicago area purchased by Southland in 1970.



# TEN YEARS OF GROWTH

The Southland Corporation  
and Subsidiaries

	1961	1962
Total Revenues*	\$ 129,019	\$ 166,453
Net Earnings (Note 2)*	1,477	2,028
Net Working Capital*	5,326	4,891
Property, Plant & Equipment (Net)*	12,078	15,119
Long-Term Debt*	5,753	6,129
Stockholders' Equity*	12,303	14,440
Cash Dividends (Note 4)	396,786	764,921
Average Shares Outstanding (Note 3)	5,660,018	5,766,538
Number of Stockholders (Note 4)	329	376

\*(000 Omitted)

## Per Share of Common Stock (Note 3):

Net Earnings	.26	.35
Cash Dividends (Note 4)	.07	.13
Book Value	2.17	2.50
Earnings as a percent of Stockholders' Equity	12.01	14.04

### Notes:

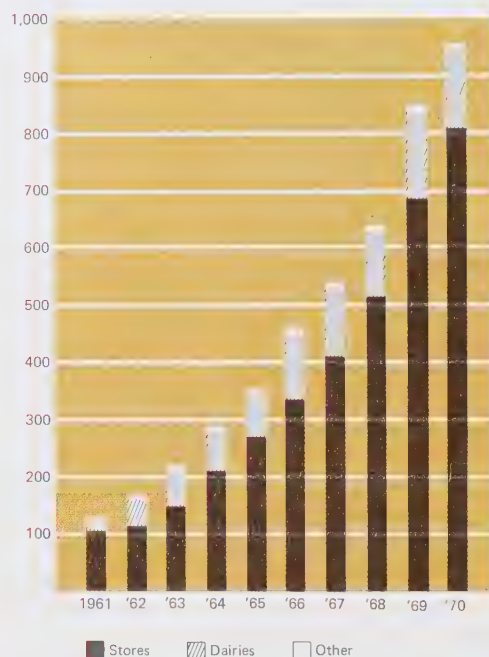
(1) Includes The Southland Corporation and subsidiaries. Data for businesses acquired under the pooling of interests concept have been included for years prior to their acquisition by The Southland Corporation.

(2) Net earnings include special items of \$393,000 (deduction) in 1961, \$520,000 (addition) in 1967 and \$380,914 (addition) in 1969.

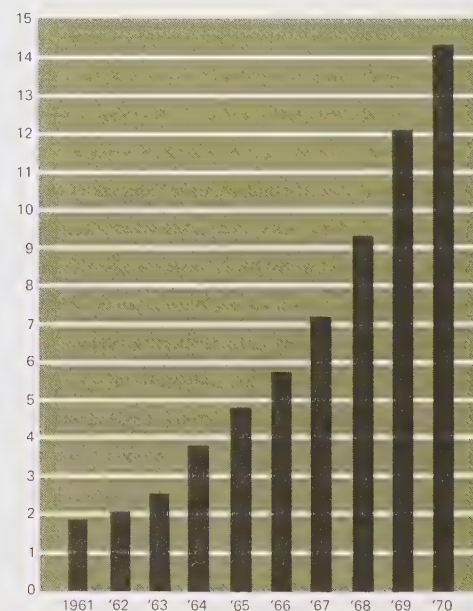
(3) Calculations of per share information are based upon the average number of shares outstanding during the respective years after giving effect to subsequent stock dividends, stock splits and shares issued in exchange for businesses acquired under the pooling of interests concept.

(4) Cash dividends and number of stockholders relate to the parent company only.

**Total Revenues**  
In Millions



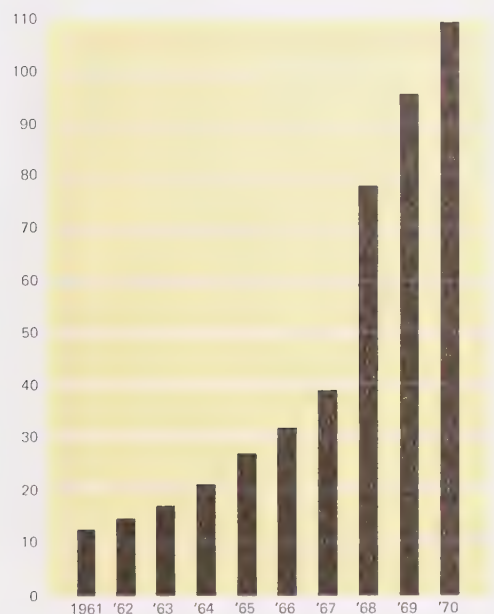
**Net Earnings (After Tax)**  
(Before Special Items) In Millions



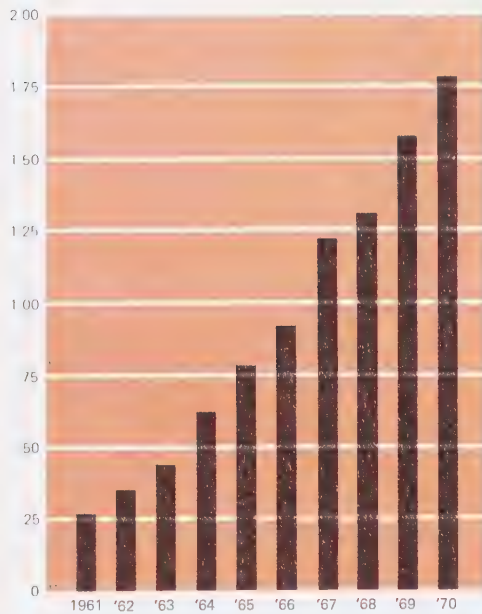


1963	1964	1965	1966	1967	1968	1969	1970
\$ 212,679	\$ 286,005	\$ 347,834	\$ 459,266	\$ 539,926	\$ 637,488	\$ 842,244	\$ 951,901
2,590	3,755	4,802	5,744	7,748	9,360	12,483	14,430
8,730	28,703	33,225	41,541	41,270	56,887	76,707	80,043
20,528	22,466	24,303	43,748	63,818	90,865	126,634	137,093
12,815	30,212	30,200	51,533	62,170	62,512	96,668	94,896
16,687	20,966	26,744	31,454	38,686	77,724	95,766	109,039
888,112	1,081,113	1,105,768	1,249,592	1,342,085	1,557,096	1,795,594	1,887,610
5,881,556	5,999,556	6,154,882	6,260,722	6,310,247	7,124,999	7,959,019	8,087,553
514	980	1,228	2,111	2,816	7,457	8,079	8,249
.44	.63	.78	.92	1.23	1.31	1.57	1.78
.15	.18	.18	.20	.21	.22	.23	.23
2.84	3.49	4.35	5.02	6.13	10.91	12.03	13.48
15.52	17.91	17.96	18.26	20.03	12.04	13.03	13.23

**Stockholders' Equity**  
In Millions



**Earnings Per Share**  
In Dollars





# THE SOUTHLAND CORPORATION TODAY

## Map Key

### Store Operations:

-  7-Eleven Stores
-  Barricini Candy Shops
-  Gristede's and Charles & Co. Stores and Shops
-  Bradshaw's Supermarkets

These color-coded dots indicate the location of Southland's 4,010 stores.

### Dairy Operations:

-  Adohr Farms
-  Briggs
-  Cabell's
-  Embassy
-  Harbisons
-  Horten
-  Midwest Farms
-  Oak Farms
-  Spreckels
-  Velda Farms
-  Wanzer's
-  Special Products

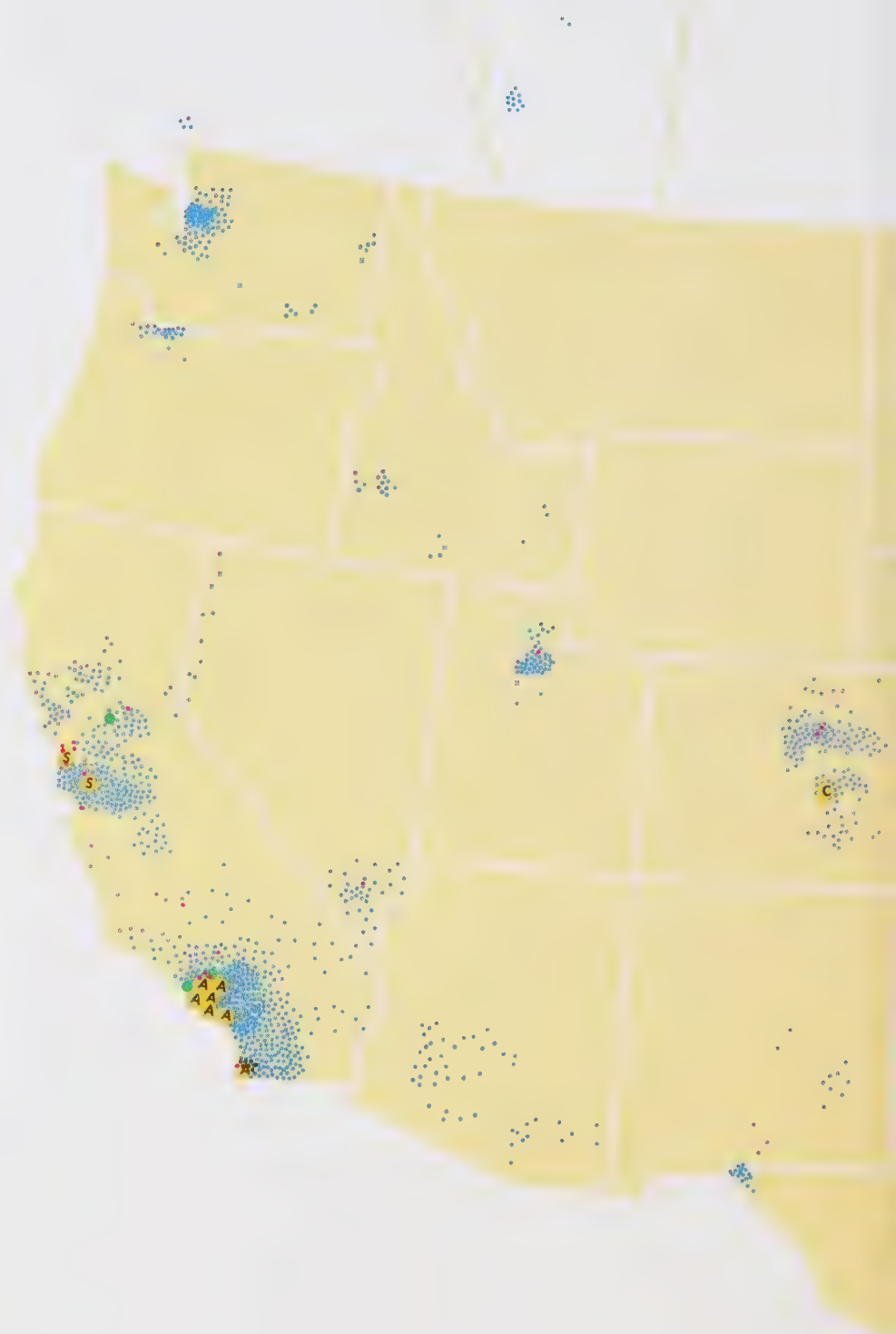
These letter-keyed symbols indicate the location of processing plants and distribution centers of Southland's 11 dairy divisions. The dairy symbol locates Southland's production plant for specialty food products.

### Chemical Division

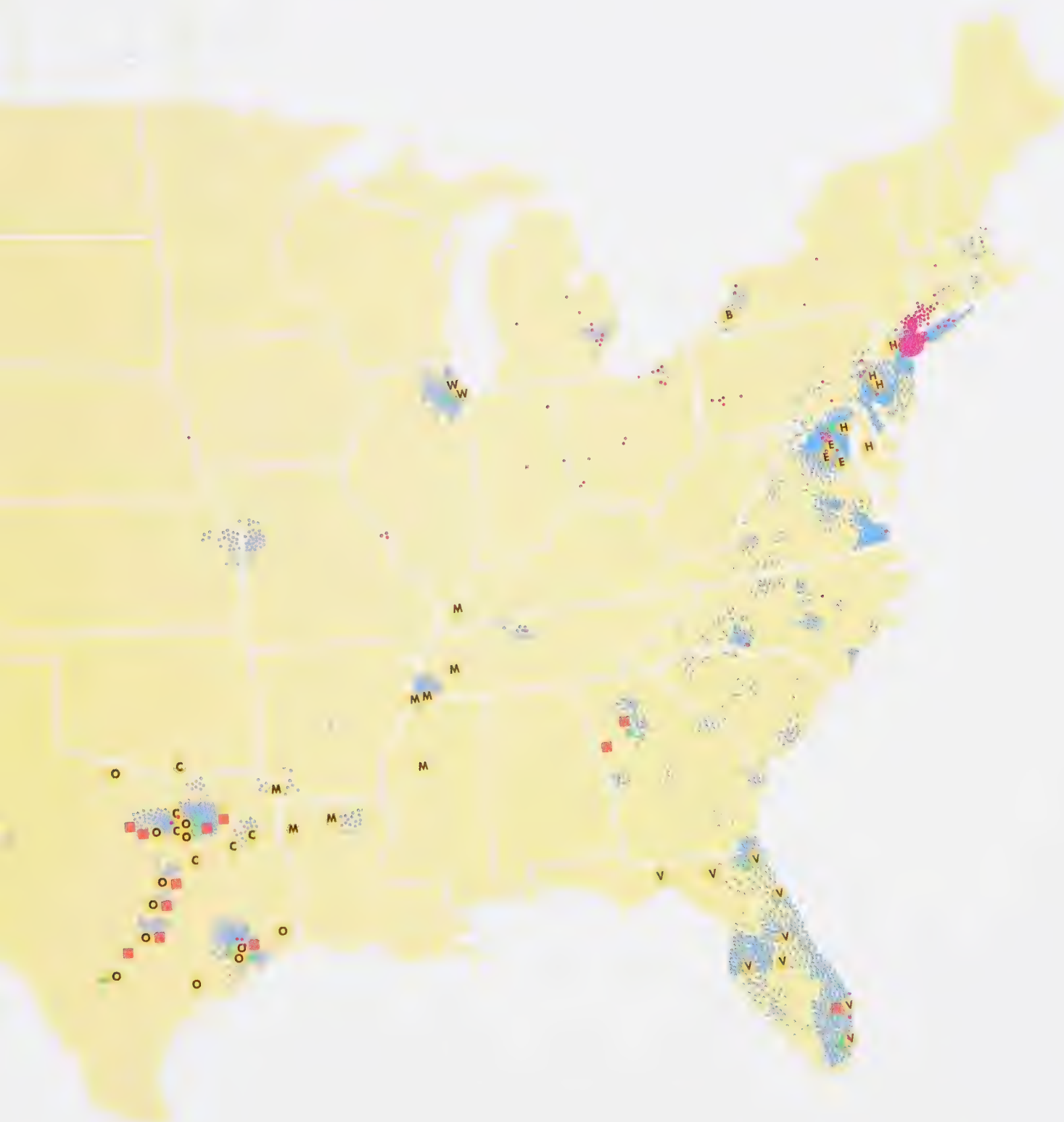
This symbol indicates the location of chemical manufacturing plants and sales offices.

### Reddy Ice Division

This symbol indicates the location of ice operations.









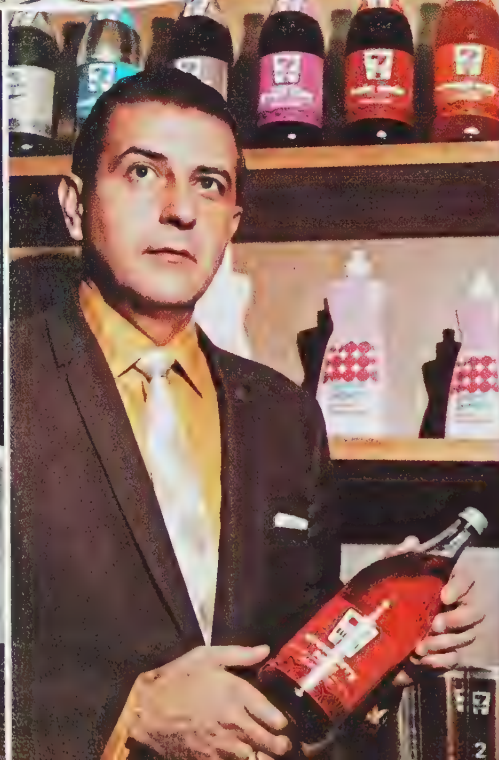




## REVIEW OF OPERATIONS

- . Adohr Farms milk truck in Southern California.
- . 7-Eleven store in Utah.
- . Embassy milk truck in Washington, D. C.
- . Wanzer's milk truck in Chicago.
- . Barricini candy shop in New York City.
- . Gristede's store in Ridgefield, Connecticut.
- . Velda Farms milk truck in Miami.
- . Spreckels milk truck crossing San Francisco's Golden Gate Bridge.







## STORE OPERATIONS

Sales of the Store Divisions were at an all-time high of \$804,489,573, up 17% over 1969's \$686,407,985, and represented 84% of corporate revenues.

At year-end, 4,010 stores were in operation, including 7-Eleven convenience food stores, Gristede's stores, Barricini candy shops and Bradshaw's supermarkets, in 35 states, the District of Columbia and three provinces of Canada.

There were 3,734 convenience food stores (principally 7-Eleven) in operation at December 31. During the year, 336 stores were added, most of them in the larger metropolitan markets. Due to lease expirations, changing local economic conditions and other operational reasons, 139 7-Eleven stores were closed. It has been the company's experience that a majority of discontinued stores can be utilized by the company, disposed of or leased for other commercial purposes.

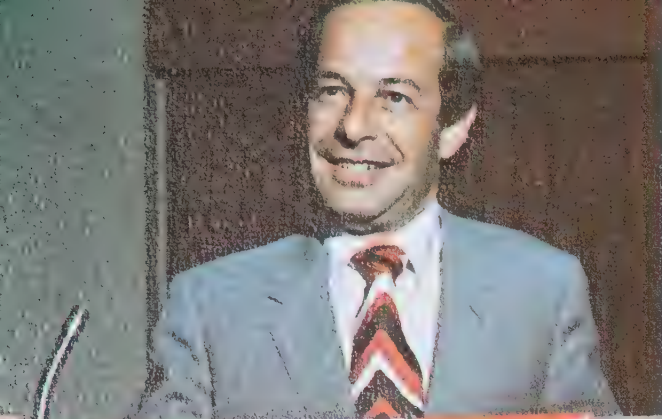
Gristede's and the Charles & Co. stores and sandwich shops, located in the New York City metropolitan area, reported the highest sales and profits in their 79-year history. Seven stores were opened and two were closed during 1970, bringing the total in operation to 126 at year-end.

Barricini, headquartered in Long Island City, New York, ended its first full year of operation as a part of Southland with improved operating results. The introduction of Barricini candy in some 7-Eleven and Gristede's stores and on selected home delivery dairy routes contributed to the increased sales and profits. At December 31, there were 142 Barricini candy shops operating in 20 states and the District of Columbia.

During the year, Bradshaw's eighth supermarket was opened in the San Diego area, and another is scheduled for completion in 1971.

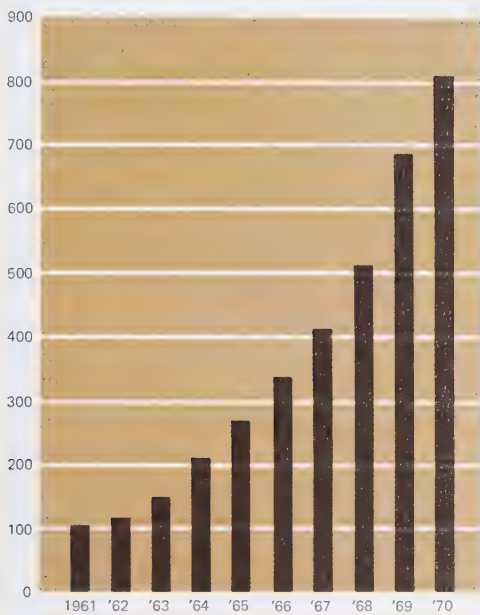
1. **Jere W. Thompson**, vice president of store operations.
2. **Richard Turchi**, merchandising manager.
3. **Palmer Waslien**, franchise manager.







**Store Sales  
In Millions**



Sixty franchised Open Pantry convenience food stores in the Chicago area were purchased by Southland late in 1970. The nine Dairy Miss stores included with the purchase of Horten Dairy Company are located in Cleveland and provide a base for future expansion in this large metropolitan market.

The extensive modernization of older 7-Eleven stores, begun in 1968, was continued throughout 1970 with a total of 1,562 stores being remodeled and air-conditioned during the three-year period.

Of the company's total convenience food stores in operation as of December 31, 1,537, or 41%, were operated by independent franchisees.

Three area franchises for 7-Eleven stores were granted during late 1968 and early 1969. There were 18 stores in operation in these areas at December 31. Although no additional area franchise agreements were finalized during 1970, negotiations for available areas are in progress.

During 1970, the Store Divisions' merchandising staff concentrated their research programs on the changing trends in customer preferences and shopping habits, particularly relating to the increased demand for quality take-out and quickly-prepared convenience foods. A majority of 7-Eleven stores now offer a wider selection of delicatessen items, sandwiches, packaged salads and a variety of other convenience foods.

#### Store operations division managers:

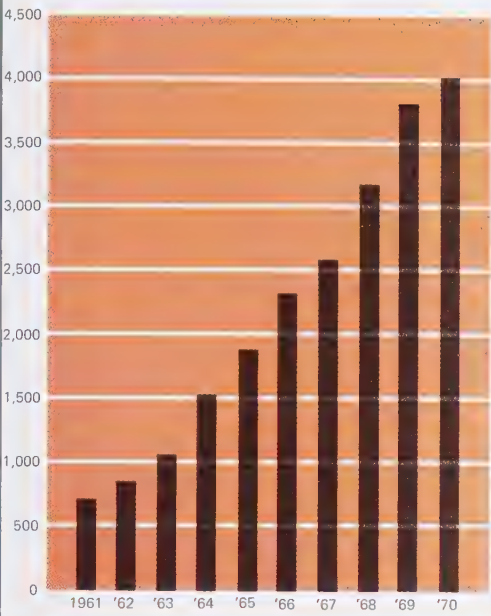
1. **Martin Comart**, Barricini.
2. **Jack Dold**, Southern Stores Division (7-Eleven).
3. **David C. Neale**, Southeastern Stores Division (7-Eleven).
4. **Otto P. Haass**, Gristede's.
5. **Forrest W. Stout**, Eastern Stores Division (7-Eleven).







Number of Stores



The new micro-wave oven method of preparing fried chicken and other hot take-out foods, first tested in the Roanoke, Virginia area, has been extended to additional stores in other market areas. Consumer acceptance has been favorable, and further market testing, product development and expansion into other stores will continue during 1971.

During the year, production was substantially increased in the Fort Lauderdale sandwich plant which serves 7-Eleven stores and other outlets in the Florida "Gold Coast" area. A second Florida sandwich-making facility, located in Dunedin, was modernized and enlarged, and a new sandwich plant will be opened in the Washington, D. C. area in early 1971.

Self-service gasoline is now available at 75 7-Eleven stores in 11 states, and additional installations are planned for 1971.

The Store Divisions' radio and TV advertising campaign featuring the slogan, "Oh, Thank Heaven for 7-Eleven," was highly successful during 1970, and will be continued nationally in 1971.

**Store operations division managers:**

1. **Vaughn R. Heady**, Southwestern Stores Division (7-Eleven).
2. **Dick Dole**, Western Stores Division (7-Eleven).
3. **Ben Holland**, Mountain Stores Division (7-Eleven).
4. **Ray D. Berry**, Northwestern Stores Division (7-Eleven).







## DAIRY OPERATIONS

Total sales of the Dairy Divisions, including intercompany sales, reached the \$200 million level for the second consecutive year with operating profits up 4.6% over 1969.

Our sales and profits were adversely affected by a dairy strike in mid-year involving major dairies in Chicago, including Wanzer's, Southland's third largest dairy. Early in the year, the Dairy Divisions began a detailed reevaluation of their production facilities, market areas and sales and distribution policies. As a result of this critical review, marginal markets and accounts were eliminated, operations were consolidated and distribution methods were altered to meet specific market requirements and to effect operating economies.

The Dairy Divisions' new Trim Line low-fat dairy products, which were introduced in May, have enjoyed enthusiastic market acceptance. Trim Line milk, the first of the product line to be marketed, was followed by Trim Line cottage cheese, ice milk and yogurt in a variety of flavors. The distinctively packaged Trim Line products were widely promoted and advertised throughout the year with the slogan, "The Million Dollar Look," and will be prominently featured in the 1971 sales and marketing programs.

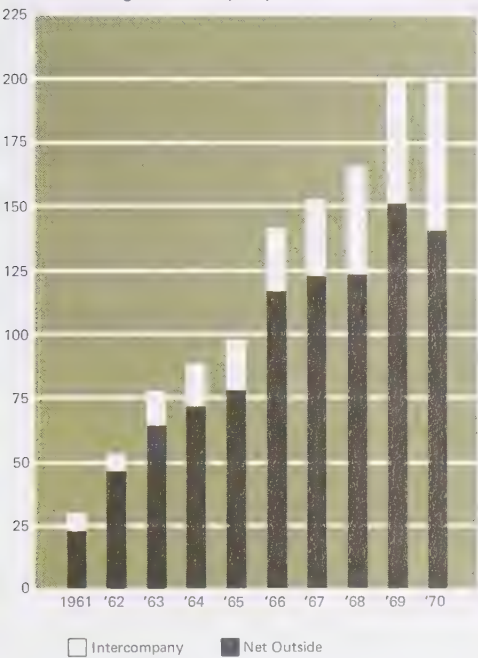
1. **M. T. Cochran, Jr.**, vice president of dairy operations.
2. **Charles Capri**, dairy operations sales manager.
3. **Jim Reeves**, dairy procurement manager.
4. **John Kellum**, dairy operations manager.







**Dairy Sales**  
(Including Intercompany Sales) In Millions



A new automated processing plant was opened in late 1970 in Sulphur Springs, Texas, for the production of yogurt, sour cream, dips, orange juice, sterilized creams and other specialty food products. These products are currently being supplied to three of Southland's Dairy Divisions, and it is planned that distribution will be extended into other market areas.

Horten Dairy Company in Cleveland, the most recent addition to dairy operations, began as a family-owned-and-operated enterprise in 1889 and today serves wholesale and institutional customers throughout the greater Cleveland metropolitan area.

Southland's dairy operations now encompass 11 Dairy Divisions, with distribution in 22 states and the District of Columbia through 32 processing plants and 88 principal distribution centers.

#### Dairy operations division managers:

1. **Mason Copeland**, Velda Farms.
2. **Bruce Furrh**, Midwest Farms.
3. **Robert J. Harbison, III**, Harbisons.
4. **Jack House**, Adohr Farms and Spreckels.
5. **Jack F. Hartfelder**, Oak Farms.
6. **L. B. Smith**, Cabell's.
7. **Henry Soldwedel**, Wanzer's.
8. **J. Ridgely Parks**, Embassy.
9. **Gary Crayton**, Briggs.
10. **Robert Horten**, Horten.



## CHEMICAL/ICE

Sales, including intercompany sales, of Southland's Chemical Division were \$4,836,393 for the year, an increase of 35% over 1969. In its sixth year of operation, the division, though still representing a small part of our overall operations, continued to expand and diversify its product line to supply its growing nationwide markets.

This division primarily manufactures and distributes cleaning compounds, sanitizing agents, food stabilizers, flavor concentrates and other specialty products, largely for industrial customers. New products developed and marketed for the first time in 1970 include a Super Seven line of detergents and other specialized and all-purpose cleaners for general consumer use.

Early in 1970, the purchase of Longhorn Paint Company in San Antonio, Texas, added another product line to chemical operations. Longhorn Paint is now supplying Southland and outside customers with a wide variety of quality paints, varnishes, lacquers and industrial coatings.

Southland's Specialty Division, formed as an adjunct to the Dairy Divisions in 1968, was merged into the Chemical Division at the end of 1970 to supply Southland's dairies and other customers

more effectively with specialized plastic containers and bags, sticks and flavors used in the production of ice cream bars and other ice cream novelties.

At year-end, the Chemical Division had 10 sales offices and five plants in 11 cities in six states.

Reddy Ice, Southland's oldest division, continued to show gains in both sales and profits with total sales, including intercompany sales, of \$3,660,433 for the year, up 8% over 1969.

A three-year modernization, consolidation and expansion program concluded in 1970 has significantly improved the efficiency and production capacity of the division's plants. This long-range improvement project will enable Reddy Ice to serve its customers better and maintain a strong competitive position.

During 1970, Reddy Ice took on a new ultra-modern look with the adoption of a colorful contemporary design for its trucks, driver uniforms, product packaging and merchandising cabinets.

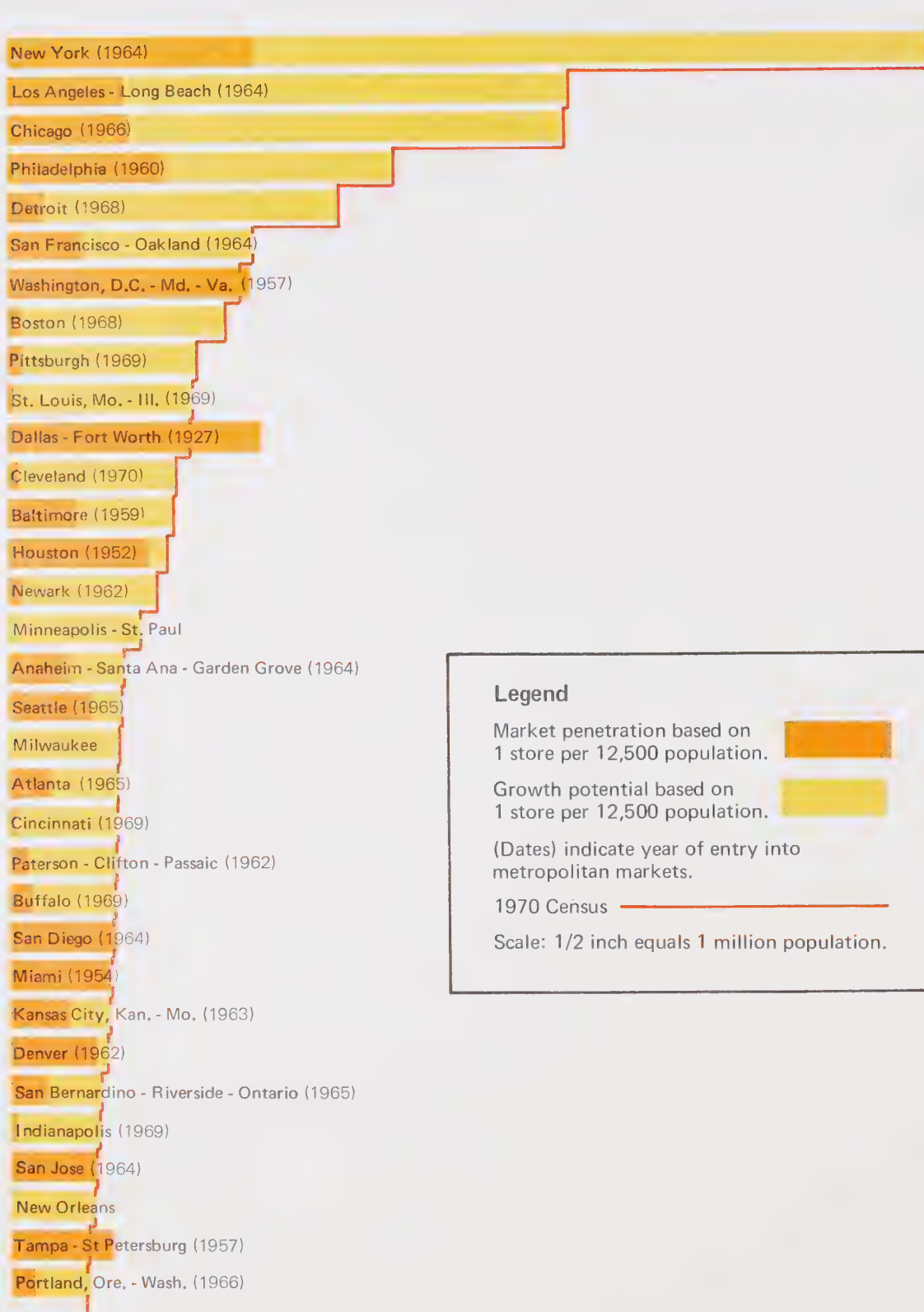




1. **Ronald Goodnight**, Chemical Division manager.
2. **Paul Reed**, Reddy Ice Division manager.



# SOUTHLAND STORES IN MAJOR METROPOLITAN MARKET AREAS





## FINANCIAL STATEMENTS

The graph at left shows Southland store operations' present market penetration, together with future growth potential, in the 33 U. S. metropolitan areas of approximately one million or more population. The company has achieved a ratio of one store per 12,500 population in four of the seven markets in which it has operated for at least 10 years.



## Consolidated Balance Sheet

### The Southland Corporation and Subsidiaries

## Assets

	December 31 1970	December 31 1969
<b>Current Assets:</b>		
Cash . . . . .	\$ 30,025,642	\$ 29,531,294
Cash investments . . . . .	14,701,597	5,726,733
Accounts and notes receivable (Note 2) . . . . .	35,299,642	35,192,777
Inventories, at the lower of cost or market . . . . .	43,165,825	39,690,526
Deposits and prepaid expense . . . . .	6,777,088	8,424,960
Investment in property (Note 3) . . . . .	20,658,589	23,685,832
<b>Total Current Assets</b> . . . . .	<b>150,628,383</b>	<b>142,252,122</b>
 <b>Investments and Other Assets</b> . . . . .	 <b>1,467,977</b>	 <b>1,312,499</b>
 <b>Property, Plant and Equipment</b> (Notes 4 and 5) . . . . .	 <b>137,093,001</b>	 <b>126,633,810</b>
	<b>\$289,189,361</b>	<b>\$270,198,431</b>

See notes to financial statements.





## Liabilities and Stockholders' Equity

	December 31 1970	December 31 1969
<b>Current Liabilities:</b>		
Long-term debt due within one year . . . . .	\$ 5,970,693	\$ 5,815,723
Accounts payable and accrued expense . . . . .	61,593,219	57,726,481
Federal income tax . . . . .	3,021,791	2,002,704
<b>Total Current Liabilities . . . . .</b>	<b>70,585,703</b>	<b>65,544,908</b>
<b>Deferred Credits (Note 6) . . . . .</b>	<b>13,222,811</b>	<b>11,156,269</b>
<b>Reserves for Self Insurance . . . . .</b>	<b>1,445,788</b>	<b>1,062,769</b>
<b>Long-Term Debt, due after one year (Note 5) . . . . .</b>	<b>94,895,596</b>	<b>96,668,215</b>
<b>Contingencies and Commitments (Note 8) . . . . .</b>		
<b>Stockholders' Equity (Notes 5 and 7):</b>		
Common stock, \$.01 par value, authorized 20,000,000 shares, issued and outstanding 8,116,207 shares in 1970, and 7,819,162 shares in 1969 . . . . .	81,162	78,192
Additional paid-in capital . . . . .	78,381,952	70,608,627
Earnings retained in the business . . . . .	30,576,349	25,079,451
	<b>109,039,463</b>	<b>95,766,270</b>
	<b>\$289,189,361</b>	<b>\$270,198,431</b>

See notes to financial statements.



# Statement of Consolidated Earnings

The Southland Corporation and Subsidiaries

Year ended December 31

Revenues:	1970	1969
Net sales (including franchised stores) . . . . .	\$950,720,856	\$840,817,961
Interest and other income . . . . .	1,180,631	1,426,411
	<u>951,901,487</u>	<u>842,244,372</u>

## Cost of Sales and Expenses (Note 11):

Cost of sales and expenses exclusive of items listed below . . . . .	859,349,308	765,049,353
General and administrative expenses . . . . .	7,755,835	5,983,299
Property and equipment rentals (Note 8) . . . . .	33,394,313	27,746,505
Depreciation (Note 4) . . . . .	13,650,586	10,425,578
Interest expense . . . . .	5,526,928	4,611,957
Contributions to employees' savings and profit-sharing fund . . . . .	3,123,864	2,799,715
	<u>922,800,834</u>	<u>816,616,407</u>

Earnings Before Income Taxes and Extraordinary Item . . . . .	29,100,653	25,627,965
Income Taxes (Note 9) . . . . .	14,671,000	13,526,000
Earnings Before Extraordinary Item . . . . .	<u>14,429,653</u>	<u>12,101,965</u>
Extraordinary Item — Sale of real estate (net of income taxes of \$125,000) . . . . .	—	380,914
Net Earnings . . . . .	<u>\$ 14,429,653</u>	<u>\$ 12,482,879</u>

## Primary Earnings Per Share (Note 10):

Before extraordinary item . . . . .	\$ 1.78	\$ 1.52
Extraordinary item . . . . .	—	.05
Net earnings . . . . .	<u>\$ 1.78</u>	<u>\$ 1.57</u>

## Earnings Per Share — Assuming full dilution (Note 10):

Before extraordinary item . . . . .	\$ 1.59	\$ 1.36
Extraordinary item . . . . .	—	.04
Net earnings . . . . .	<u>\$ 1.59</u>	<u>\$ 1.40</u>

See notes to financial statements.



# Statement of Consolidated Stockholders' Equity

The Southland Corporation and Subsidiaries

	Year ended December 31	
	1970	1969
<b>Common Stock:</b>		
The Southland Corporation . . . . .	\$ 77,528	\$ 71,804
Shares issued in poolings . . . . .	664	664
Balance January 1, restated for poolings . . . . .	78,192	72,468
Exercise of stock options . . . . .	667	1,149
3% Stock dividend . . . . .	2,312	2,215
Conversion of notes . . . . .	—	1,723
Purchase acquisitions (adjustments) . . . . .	(9)	637
Balance December 31 . . . . .	81,162	78,192
<b>Additional Paid-in Capital:</b>		
The Southland Corporation . . . . .	70,436,100	56,013,638
Pooled companies . . . . .	172,527	172,527
Balance January 1, restated for poolings . . . . .	70,608,627	56,186,165
Exercise of stock options . . . . .	858,555	1,246,449
3% Stock dividend . . . . .	6,949,481	6,980,373
Conversion of notes . . . . .	—	3,648,277
Purchase acquisitions (adjustments) . . . . .	(34,711)	2,547,363
Balance December 31 . . . . .	78,381,952	70,608,627
<b>Earnings Retained in the Business:</b>		
The Southland Corporation . . . . .	24,497,922	20,932,398
Pooled companies . . . . .	581,529	533,034
Balance January 1, restated for poolings . . . . .	25,079,451	21,465,432
Net earnings for the year . . . . .	14,429,653	12,482,879
	39,509,104	33,948,311
Less:		
Cash dividends . . . . .	1,887,610	1,795,594
Cash paid in lieu of fractional shares . . . . .	93,352	90,680
3% Stock dividend . . . . .	6,951,793	6,982,586
	8,932,755	8,868,860
Balance December 31 . . . . .	30,576,349	25,079,451
<b>Total Stockholders' Equity</b> (Notes 5 and 7) . . . . .	<b>\$109,039,463</b>	<b>\$ 95,766,270</b>

See notes to financial statements.



# Statement of Consolidated Source and Application of Funds

## The Southland Corporation and Subsidiaries

	Year ended December 31	
Source of Funds:	1970	1969
From operations:		
Net earnings . . . . .	\$ 14,429,653	\$ 12,482,879
Depreciation . . . . .	13,650,586	10,425,578
Deferred income taxes and other credits . . . . .	2,066,542	3,570,109
	<u>30,146,781</u>	<u>26,478,566</u>
5½% Convertible subordinated debentures . . . . .	—	40,000,000
Other long-term debt . . . . .	4,443,951	4,094,360
Conversion of notes . . . . .	—	3,650,000
Exercise of stock options . . . . .	859,222	1,247,598
Shares issued in purchase acquisitions . . . . .	—	2,548,000
Increase in accounts payable, accruals and income tax . . . . .	4,885,825	14,336,648
Property retirements and sales . . . . .	1,748,751	5,116,668
Decrease in investment in property . . . . .	3,027,243	—
Other . . . . .	2,030,891	186,059
	<u>\$ 47,142,664</u>	<u>\$ 97,657,899</u>
Application of Funds:		
Payment of long-term debt . . . . .	\$ 6,061,600	\$ 5,866,766
Conversion of notes . . . . .	—	3,650,000
Cash dividends . . . . .	1,887,610	1,795,594
Cash paid in lieu of fractional shares . . . . .	93,352	90,680
Property, plant and equipment . . . . .	25,858,528	51,310,564
Increase in cash and cash investments . . . . .	9,469,212	10,822,191
Increase in accounts and notes receivable . . . . .	106,865	8,363,889
Increase in inventories . . . . .	3,475,299	6,071,787
Increase in investment in property . . . . .	—	6,600,640
Other . . . . .	190,198	3,085,788
	<u>\$ 47,142,664</u>	<u>\$ 97,657,899</u>

See notes to financial statements.



# Notes to Financial Statements

## The Southland Corporation and Subsidiaries

Years ended December 31, 1970 and 1969

TOUCHE ROSS & CO.  
DALLAS FEDERAL SAVINGS BUILDING  
DALLAS, TEXAS 75201

Board of Directors and Stockholders  
The Southland Corporation  
Dallas, Texas

We have examined the accompanying consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1970 and 1969, and the related statements of earnings, stockholders' equity, and source and application of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1970 and 1969, the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Touche Ross & Co.*

Dallas, Texas  
February 23, 1971

**NOTE 1 — Principles of Consolidation:** The financial statements include the assets, liabilities, sales, and costs and expenses of all subsidiaries. Operations of businesses acquired in transactions accounted for as purchases have been included in consolidated earnings since acquisition, while operations of businesses acquired in transactions accounted for as poolings of interest have been included in consolidated earnings for all periods. Intercompany transactions, including those with pooled companies prior to acquisition, have been eliminated.

Horten Dairy Company, Northern Illinois Open Pantry Food Marts, Inc. and ABBS Corporation were acquired in 1970 in exchange for 66,352 shares of common stock in transactions accounted for as poolings of interest. These companies conduct convenience store and/or dairy operations.

Operations for the year 1970 include revenues of \$17,034,820 and net earnings of \$27,469 applicable to these companies for the portion of the year prior to acquisition.

A reconciliation of amounts previously reported for 1969 and the amounts reported herein follows:

	Revenues	Net Earnings
As previously reported . . . . .	\$826,462,439	\$12,434,384
Pooled companies . . . . .	15,781,933	48,495
As reported herein . . . . .	<u>\$842,244,372</u>	<u>\$12,482,879</u>

During 1969, the Company acquired Sidney Wanzer & Sons, Inc. on January 2, and Barricini Stores, Inc. on July 26, in transactions accounted for as purchases. Sidney Wanzer & Sons, Inc. is in the dairy business. Barricini Stores, Inc. operates a manufacturing, wholesale and retail candy business.

### NOTE 2 — Accounts and Notes Receivable:

	1970	1969
Trade . . . . .	\$21,567,714	\$22,643,935
Franchisee . . . . .	14,540,221	13,368,776
Other . . . . .	1,184,277	822,006
	<u>37,292,212</u>	<u>36,834,717</u>
Less allowance for doubtful accounts . . . . .	1,992,570	1,641,940
	<u>\$35,299,642</u>	<u>\$35,192,777</u>

**NOTE 3 — Investment in Property:** Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Current working funds are used in the construction of new facilities and the Company expects that cash will be realized within a twelve-month period for these assets.

### NOTE 4 — Property, Plant and Equipment:

Cost:	1970	1969
Land . . . . .	\$ 16,599,809	\$ 14,462,476
Buildings and leaseholds . . . . .	62,830,482	52,661,358
Machinery and equipment . . . . .	100,867,744	89,236,316
Vehicles . . . . .	3,041,027	3,244,948
Construction in process . . . . .	3,558,901	3,619,812
	<u>186,897,963</u>	<u>163,224,910</u>
Less accumulated depreciation . . . . .	49,804,962	36,591,100
	<u>\$137,093,001</u>	<u>\$126,633,810</u>

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining lives of the leases or the estimated useful lives of such assets, whichever is the shorter.

**NOTE 5 — Long-Term Debt:** At December 31, 1970, long-term debt and amounts due within one year were as follows:

	Amount outstanding	Current portion	Balance included in long-term debt
5½% Promissory notes due 1976 . . . . .	\$ 17,187,500	\$3,437,500	\$13,750,000
4% — 8½% Real estate notes . . . . .	25,778,789	2,533,193	23,245,596
5% Convertible subordinated notes due 1984 . . . . .	7,250,000	—	7,250,000
5¼% Convertible subordinated notes due 1987 . . . . .	10,650,000	—	10,650,000
5½% Convertible subordinated debentures due 1989 . . . . .	40,000,000	—	40,000,000
	<u>\$100,866,289</u>	<u>\$5,970,693</u>	<u>\$94,895,596</u>

Approximately 22% of the net carrying value of property, plant and equipment is mortgaged. These real estate notes mature from 1971 to 1995.

The 5%, the 5¼% convertible notes, and the 5½% convertible debentures may, at the option of the holders, be converted at any time into common stock of the Company at the rates, respectively, of 53.76, 43.85 and 27.20 shares of stock for each \$1,000 of principal. As to the notes, these rates decrease to 47.31 and 41.68 shares on January 1, 1975 and December 1, 1977, respectively. At



December 31, 1970, there were 1,944,762 shares of common stock reserved for the conversion of the notes and debentures. Principal payments are due annually beginning in 1975, 1978 and 1980 respectively, in amounts equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first required payment.

The aggregate amounts of long-term debt maturities for the five years following December 31, 1970, are: 1971 — \$5,970,693; 1972 — \$5,838,422; 1973 — \$5,792,159; 1974 — \$5,636,735; 1975 — \$5,497,453.

The agreements under which the promissory notes, the convertible notes and debentures were issued place certain restrictions on the payment of cash dividends. Under the most restrictive of these provisions, retained earnings totaling \$22,988,000 at December 31, 1970, were not so restricted. Other provisions of the agreements include requirements as to maintenance of working capital and net worth. The Company has complied with these requirements.

**NOTE 6 — Deferred Credits:** For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the useful life of the assets or the term of the leases, respectively.

Deferred federal income taxes result from the use of accelerated depreciation methods for tax purposes.

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1969 . . .	\$3,050,463	\$4,013,310	\$522,387	\$ 7,586,160
Balances of companies acquired . . .	—	—	36,851	36,851
Provided for the year . . . . .	1,753,695	2,283,805	186,186	4,223,686
Taken into income . . . . .	(660,662)	—	(29,766)	(690,428)
Balance December 31, 1969 . . .	<u>4,143,496</u>	<u>6,297,115</u>	<u>715,658</u>	<u>11,156,269</u>
Provided for the year . . . . .	248,552	2,338,448	170,543	2,757,543
Taken into income . . . . .	(678,045)	—	(12,956)	(691,001)
Balance December 31, 1970 . . .	<u>\$3,714,003</u>	<u>\$8,635,563</u>	<u>\$873,245</u>	<u>\$13,222,811</u>

**NOTE 7 — Stock Options:** At December 31, 1970, options for 168,222 shares of the Company's stock at prices ranging from \$4.02 to \$34.50, were outstanding, of which 94,480 shares were exercisable. During 1970, 68,338 shares were issued upon exercise of options at prices ranging from \$2.90 to \$30.58; options were granted for 39,110 shares at prices ranging from \$30.10 to \$34.50; and options for 12,852 shares expired or were cancelled. During 1969, 120,156 shares were issued upon exercise of options at prices ranging from \$2.17 to \$29.69; options were granted for 33,810 shares at prices ranging from \$29.69 to \$38.17; and options for 9,888 shares expired or were cancelled.

An additional 64,397 shares are available for future grants under the employees' stock option plan.

The above information has been adjusted for stock dividends.

**NOTE 8 — Lease Commitments:** Certain of the property and equipment used in the Company's business is leased. Minimum rental payments for 1971 under lease agreements in effect as of December 31, 1970, exclusive of taxes and insurance payable by the Company, approximate \$23,504,000 for real estate leases and \$11,927,000 for equipment leases.

Real estate leases range generally from 15 to 20 years and equipment leases from 5 to 10 years. Future minimum annual rental payments for leases in effect at December 31, 1970, are approximately as follows for each year specified.

Year	Real Estate	Equipment	Total
1975 . . . . .	\$18,127,000	\$5,394,000	\$23,521,000
1980 . . . . .	12,834,000	389,000	13,223,000
1985 . . . . .	8,859,000	—	8,859,000
1990 . . . . .	2,396,000	—	2,396,000
1995 . . . . .	240,000	—	240,000

**NOTE 9 — Income Taxes:** The provision for income taxes is summarized below:

Federal:	1970	1969
Current . . . . .	\$11,060,000	\$ 8,588,500
Deferred . . . . .	2,587,000	4,037,500
State . . . . .	<u>1,024,000</u>	<u>900,000</u>
	<u>\$14,671,000</u>	<u>\$13,526,000</u>

**NOTE 10 — Earnings Per Share:** Primary earnings per share is based on average shares outstanding during the year adjusted for stock dividends.

The earnings per share information, assuming full dilution, is based on the assumption that the convertible notes and debentures had been converted into shares of common stock at the stated conversion rates at the earliest possible dates, that the related interest requirements had been eliminated and that outstanding stock options had been exercised.

The number of shares have been adjusted to reflect the poolings of interest.

**NOTE 11 — Cost of Sales and Expenses:** Cost of sales and expenses are reported to the Securities and Exchange Commission in accordance with its regulations as follows:

	1970	1969
Cost of goods sold, including buying and occupancy expenses . . . . .	\$719,013,782	\$634,803,370
Selling, general and administrative expenses . . . . .	195,136,260	174,401,365
Interest expense . . . . .	5,526,928	4,611,957
Contributions to employees' savings and profit-sharing fund . . . . .	<u>3,123,864</u>	<u>2,799,715</u>
	<u>\$922,800,834</u>	<u>\$816,616,407</u>







#### Board of Directors

1. Webster Atwell  
of Counsel, Atwell, Malouf, Musslewhite & Bynum
2. J. Y. Ballard  
Vice President / Independent Consulting Engineer
3. Walton Grayson, III  
Vice President and General Counsel / Partner, Grayson & Simon
4. H. E. Hartfelder  
President
5. W. W. Overton, Jr.  
Chairman of the Board and Chief Executive Officer of Texas Bank & Trust Company of Dallas
6. Jere W. Thompson  
Vice President
7. John P. Thompson  
Chairman of the Board and Chief Executive Officer
8. Clifford W. Wheeler  
Vice President

#### Officers

- |                     |   |
|---------------------|---|
| John P. Thompson    | Chairman of the Board and Chief Executive Officer |
| H. E. Hartfelder    | President   |
| Jere W. Thompson    | Vice President, Store Operations                  |
| M. T. Cochran, Jr.  | Vice President, Dairy Operations                  |
| Clifford W. Wheeler | Vice President, New Areas                         |
| Walton Grayson, III | Vice President and General Counsel                |
| Joseph S. Hardin    | Vice President, Planning and Development          |
| J. Y. Ballard       | Vice President                                    |
| W. K. Ruppenkamp    | Treasurer   |
| J. B. Langford      | Secretary   |
| R. G. Smith         | Controller  |



